

# **EXHIBIT 1**

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1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

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3 UNITED STATES OF AMERICA,

4 v.

09 CR 213 (DC)

5 BERNARD L. MADOFF,

6 Defendant.

7 -----x

8 New York, N.Y.  
9 March 12, 2009  
10:00 a.m.

10 Before:

11 HON. DENNY CHIN,

12 District Judge

13 APPEARANCES

14 LEV L. DASSIN

15 United States Attorney for the  
16 Southern District of New York

MARC O. LITT

17 LISA BARONI

Assistant United States Attorneys

18 DICKSTEIN SHAPIRO LLP

19 Attorneys for Defendant

BY: IRA LEE SORKIN

20 DANIEL J. HORWITZ

NICOLE P. DE BELLO

21 MAURO M. WOLFE

22 ALSO PRESENT: STEVEN GARFINKEL, FBI

KEITH KELLY, FBI

23 JULIA SCHULTE HANISH, USDOJ, FBI

24 THEODORE V. CACIOPPI, FBI

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1 financial institutions located outside New York State to the  
2 bank account of my investment advisory business, located in  
3 Manhattan, New York, and through mailings delivered by the  
4 United States Postal Service and private interstate carriers to  
5 my firm here in Manhattan.

6 I want to emphasize today that while my investment  
7 advisory business, the vehicle of my wrongdoing, was part of my  
8 firm, Bernard L. Madoff Securities, the other businesses my  
9 firm engaged in, proprietary trading and market making, were  
10 legitimate, profitable, and successful in all respects. Those  
11 businesses were managed by my brother and two sons.

12 To the best of my recollection, my fraud began in the  
13 early 1990s. At that time, the country was in a recession and  
14 this posed a problem for investments in the securities markets.  
15 Nevertheless, I had received investment commitments from  
16 certain institutional clients and understood that those  
17 clients, like all professional investors, expected to see their  
18 investments out-perform the market. While I never promised a  
19 specific rate of return to my client, I felt compelled to  
20 satisfy my clients' expectations, at any cost. I therefore  
21 claimed that I employed an investment strategy I had developed,  
22 called the split strike conversion strategy, to falsely give  
23 the appearance to clients that I had achieved the results I  
24 believed they expected.

25 Through the split strike conversion strategy I

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1 promised to clients and prospective clients that client funds  
2 would be invested in a basket of common stocks within the  
3 Standard & Poors 100 index, a collection of the 100 largest  
4 publicly-traded companies in terms of their market  
5 capitalization. I promised that I would select a basket of  
6 stocks that would closely mimic the price movements of the  
7 Standard & Poors 100 index. I promised that I would  
8 opportunistically time those purchases and would be out of the  
9 market intermittently, investing client funds during these  
10 periods in United States Government-issued securities, such as  
11 United States Treasury bills. In addition, I promised that as  
12 part of the split strike conversion strategy, I would hedge the  
13 investments I made in the basket of common stocks by using  
14 client funds to buy and sell option contracts related to those  
15 stocks, thereby limiting potential client losses caused by  
16 unpredictable changes in stock prices. In fact, I never made  
17 those investments I promised clients, who believed they were  
18 invested with me in the split strike conversion strategy.

19 To conceal my fraud, I misrepresented to clients,  
20 employees, and others that I purchased securities for clients  
21 in overseas markets. Indeed, when the United States Securities  
22 and Exchange Commission asked me to testify as part of an  
23 investigation they were conducting about my investment advisory  
24 business, I knowingly gave false testimony under oath to the  
25 staff of the SEC on May 19, 2006 that I executed trades of

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1 common stock on behalf of my investment advisory clients and  
2 that I purchased and sold the equities that were part of my  
3 investment strategy in European markets. In that session with  
4 the SEC, which took place here in Manhattan, New York, I also  
5 knowingly gave false testimony under oath that I had executed  
6 options contracts on behalf of my investment advisory clients  
7 and that my firm had custody of the assets managed on behalf of  
8 my investment advisory clients.

9 To further cover up the fact that I had not executed  
10 trades on behalf of my investment advisory clients, I knowingly  
11 caused false trading confirmations and client account  
12 statements that reflected the bogus transactions and positions  
13 to be created and sent to clients purportedly involved in the  
14 split strike conversion strategy, as well as other individual  
15 clients I defrauded who believed they had invested in  
16 securities through me. The clients receiving trade  
17 confirmations and account statements had no way of knowing by  
18 reviewing these documents that I had never engaged in  
19 transactions represented on the statements and confirmations.  
20 I knew those false statements and account statements would be  
21 and were sent to clients through the U.S. Mails from my office  
22 here in Manhattan.

23 Another way that I concealed my fraud was through the  
24 filing of false and misleading certified annual reports and  
25 financial statements -- excuse me. Another way that I

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1 concealed my fraud was through the filing of false and  
2 misleading certified audit reports and financial statements  
3 with the SEC. I knew that these audit reports and financial  
4 statements were false and that they would also be sent to  
5 clients. These reports, which were prepared here in the  
6 Southern District of New York, among other things, falsely  
7 reflected my firm's liabilities as a result of my intentional  
8 failure to purchase securities on behalf of my advisory  
9 clients.

10 Similarly, when I recently caused my firm in 2006 to  
11 register as an investment adviser with the SEC, I subsequently  
12 filed with the SEC a document called the form ADV uniform  
13 application for investment adviser registration. On this form  
14 I intentionally and falsely certified under penalty of perjury  
15 that Bernard L. Madoff Investment Securities had custody of my  
16 advisory clients' securities. That was not true, and I knew it  
17 when I completed and filed the form with the SEC, which I did  
18 from my office on the 17th floor of 885 Third Avenue, here in  
19 Manhattan.

20 In more recent years, I used yet another method to  
21 conceal my fraud. I wired money between the United States and  
22 the United Kingdom to make it appear as though there were  
23 actual securities transactions executed on behalf of my  
24 investment advisory clients. Specifically, I had money  
25 transferred from the U.S. bank account of my investment

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1 advisory business to the London bank account of Madoff  
2 Securities International Limited, a United Kingdom corporation  
3 that was an affiliate of my business in New York. Madoff  
4 Securities International Limited was principally engaged in  
5 proprietary trading and was a legitimate, honestly run and  
6 operated business. Nevertheless, to support my false statement  
7 that I purchased and sold securities for my investment advisory  
8 clients in European markets, I caused money from the bank  
9 account of my fraudulent advisory business, located here in  
10 Manhattan, to be wire transferred to the London bank account of  
11 Madoff Securities International Limited.

12           There were also times in recent years when I had  
13 money, which had originated in the New York Chase Manhattan  
14 bank account of my investment advisory business, transferred  
15 from the London bank account of Madoff Securities International  
16 Limited to the Bank of New York operating bank account of my  
17 firm's legitimate proprietary and market making business. That  
18 Bank of New York account was located in New York. I did this  
19 as a way of ensuring that the expenses associated with the  
20 operation of the fraudulent investment advisory business would  
21 not be paid from the operations of the legitimate proprietary  
22 trading and market making businesses.

23           In connection with the purported trades, I caused the  
24 fraudulent investment advisory side of my business to charge  
25 the investment advisory clients four cents per share as a

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1 commission. At times in the last few years, these commissions  
2 were transferred from Chase Manhattan bank account of the  
3 fraudulent investment advisory side of my firm to the account  
4 at Bank of New York, which was the operating account for the  
5 legitimate side of Bernard L. Madoff Investment Securities, the  
6 proprietary trading and market making side of my firm. I did  
7 this to ensure that the expenses associated with the operation  
8 of my fraudulent investment advisory business would not be paid  
9 from the operations of the legitimate proprietary trading and  
10 market making business. It is my belief that the salaries and  
11 bonuses of the personnel involved in the operation of the  
12 legitimate side of Bernard L. Madoff Investment Securities were  
13 funded by the operations of the firm's successful proprietary  
14 trading and market making businesses.

15 Your Honor, I hope I have conveyed with some  
16 particularity in my own words the crimes I committed and the  
17 means by which I committed them. Thank you, your Honor.

18 THE COURT: Thank you, Mr. Madoff.

19 Mr. Sorkin, I don't think there was mention of an  
20 employee benefit plan.

21 MR. SORKIN: The pension fund was mentioned, your  
22 Honor.

23 THE COURT: What page that?

24 MR. SORKIN: I think it's page 2. If you look at the  
25 top, the victim -- I'm quoting -- the victims of my scheme